



SF 2227 – Innovation Fund Tax Credits (LSB 6050SV)

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Fiscal Note Version – New

Description

Senate File 2227 increases the current 20.0% tax credit for qualified equity investments in the Iowa Innovation Fund to a 100.0% tax credit. The change is effective for investments made beginning July 1, 2011, through June 30, 2014. After that date, the tax credit percentage is 20.0%. The change is effective upon enactment and retroactive to July 1, 2011.

Background

The Innovation Fund was created in **SF 517** (Economic Development Appropriation Act of 2011). The Innovation Fund is one or more early-stage capital funds certified by the Economic Development Authority (EDA) Board. The 20.0% tax credit for equity investments in the Innovation Fund was also created in SF 517.

The tax credit cannot be redeemed until the third tax year after the tax year in which the qualified investment was made. The tax credits are not refundable, but unused credits may be carried forward for up to five additional tax years.

The EDA is required to allocate \$8.0 million of its annual \$120.0 million tax credit cap to the Innovation Fund, starting FY 2012 (see **Iowa Code section 15.119**). The EDA cannot allocate unused Innovation Fund credits to other programs that also exist under the \$120.0 million cap.

Taxpayers that invest in the Innovation Fund likely receive equity interest in the Fund. Under the provisions of the Bill, they will also receive a State income tax credit equal to 100.0% of their investment, but the credit cannot be redeemed for at least three years. Taxpayers may also face higher federal tax bills if the State income tax reduction they earn through the investment tax credit increases their federal tax liability. State income taxes are deductible at the federal level for itemized individual income tax filers and are business deductions for businesses; both instances potentially increase federal income taxes owed.

At the current 20.0% tax credit rate, the Innovation Fund could generate \$40.0 million per year if the \$8.0 million tax credit was fully utilized. If the tax credit is increased to 100.0%, the annual tax credit limit would net \$8.0 million in Innovation Fund investments each year.

The EDA rules for the Innovation Fund tax credit specify that if valid applications for more than the \$8.0 million available in a year are received, the Department will prioritize tax credit awards in the next year so that the excess applications receive tax credits first.

Fiscal Impact

The current 20.0% tax credit has been in place for seven months. Over that time, it does not appear that much progress has been made in attracting investment or creating an Innovation Fund. Therefore, it is not possible to assess whether the current \$8.0 million allocation with a

20.0% tax credit for Innovation Fund investments will be utilized in part or in whole, during FY 2012 or after.

Increasing the existing tax credit from 20.0% of the amount invested to 100.0% will no doubt make the investment more attractive and will therefore make it more likely that the \$8.0 million annual cap will be utilized. However, at this early stage of the new program, it is not possible to conclude that the existing Innovation Fund concept will not work, so the increase in the tax credit percentage from 20.0% to 100.0% does not have a fiscal impact.

The law change would mean that the annual \$8.0 million State General Fund investment in financing the Innovation Fund will yield \$8.0 million per year for the Fund, down from the \$40.0 million per year that could possibly be achieved under current law.

Sources

Economic Development Authority
Department of Economic Development

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Iowa Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
